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COMPONENT B: AUDITOR-GENERAL OPINION 2011/12

6.2 AUDITOR GENERAL REPORT 2011/12



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE CITY OF MATLOSANA

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the City of Matlosana, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended and notes, a summary of significant accounting policies and other explanatory information as set out on pages 293 to 346.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence to confirm the existence, rights, valuation and allocation and completeness of property plant and equipment of R2 221 234 759 (2011: R2 256 367 451). This was due to the inadequate descriptions in the asset register and the lack of a process to recognise each part of

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an item of property, plant and equipment separately as required by SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment*. I was unable to confirm the existence, rights, valuation and allocation and completeness of these assets by alternative means.

Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment in the financial statements was necessary.

5. SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment* require that the useful life and residual value of an asset be reviewed at least at each reporting date. Contrary to this requirement the municipality did not perform a reassessment of useful lives and residual values. I was unable to perform alternative procedures. Consequently, I was unable to satisfy myself as to the valuation of assets of R2 221 234 759 (2011: R2 256 367 451) as disclosed in note 3 to the financial statements or the accuracy, occurrence, completeness, classification and cut-off of the depreciation expense of R157 705 694 (2011: R175 297 775)) as per the statement of financial performance.
6. The municipality's valuation method used to value land, included both the value of the land and the value of the buildings on the land, while the value of the buildings were already accounted for separately, resulting in a duplication. Consequently, land and buildings and the accumulated surplus are overstated by R109 214 505 (2011: R109 214 505).
7. Contrary to SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment*, the municipality did not recognise property, plant and equipment at cost less accumulated depreciation. Consequently, assets totalling R8 964 568 (2011: R38 034 088) were incorrectly expensed. Property plant and equipment are understated by R46 998 656 (2011: R38 034 088) and expenditure is overstated by R8 964 568 (2011: R38 034 088). Additionally, the surplus for the period and accumulated surpluses are understated by R8 964 568 (2011: R38 034 088).
8. I could not obtain sufficient appropriate audit evidence to confirm the valuation and classification of work in progress of R116 877 092. I was unable to confirm the valuation and classification of these assets by alternative means. Consequently, I was unable to determine whether any adjustment relating to work in progress in the financial statements was necessary.

Investment property

9. Properties of R20 750 228 which do not meet the criteria of investment property as per the SA Standards of GRAP, GRAP 16, *Investment Property*, were incorrectly classified as investment property instead of property, plant and equipment. Consequently, investment property is overstated by R20 750 228 (2011: R57 270 973) and property, plant and equipment understated by R20 750 228 (2011: R57 270 973).
10. Properties that meet the recognition criteria of investment properties as per the SA Standards of GRAP, GRAP 16, *Investment Property*, were not included in the asset register as investment properties registered in the name of the municipality and not recognised in the financial statements. Consequently, investment properties and accumulated surplus are understated by R45 655 105 (2011: R92 612 288).

Payables from exchange transactions

11. Due to limitations on the scope of my work imposed by management, I was unable to obtain sufficient appropriate audit evidence to substantiate accruals of R101 865 819 (2011: R19 822 862) and retentions of R18 382 422 included in trade payables and sundry creditors of R88 478 176 (2011: R59 440 984) and R109 408 411 (2011: R91 976 573) respectively as disclosed in note 14 to the financial statements. I was unable to confirm the existence, obligation, valuation and allocation of these creditors by alternative means.

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Consequently, I was unable to determine whether any adjustment relating to trade and sundry creditors in the financial statements was necessary.

12. The municipality did not include all accruals in the financial statements. The municipality did not have adequate systems in place to maintain records of accounts payable for goods and services received but not yet paid for, which resulted in accruals included in sundry creditors and trade payables in note 14 to the financial statements being understated by R66 533 471.

Value added tax (VAT) payable

13. I was unable to obtain sufficient appropriate audit evidence to substantiate the VAT payable of R52 749 080 (2011: R30 045 576) disclosed in note 15 to the financial statements. I was unable to confirm the existence, obligation, valuation and allocation and completeness of this payable by alternative means. Consequently, I was unable to determine whether any adjustment relating to VAT payables in the financial statements was necessary.
14. During 2011 unclaimed VAT of R27 882 045 was not recorded in the accounting records of the municipality resulting in the overstatement of VAT payable by R27 882 045, property, plant and equipment by R2 131 989 and expenditure by R16 049 954 and the understatement of revenue by R5 368 713 and long term liabilities by R4 331 388. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures.

Provisions

15. The municipality did not consider all relevant demographic and financial variables and did not use the projected unit credit method when estimating the provision for long service awards of R144 682 189 (2011: R143 328 045) and continuous medical aid contribution of R131 693 825 (2011: R125 269 449) as required by South African Statement of Generally Accepted Accounting Practice, IAS 19 (AC 116), *Employee Benefits*. Furthermore, the municipality does not have a specific accounting policy that addresses these requirements in their financial statements. The municipality also did not disclose the current and non-current portions separately. I was unable to confirm the valuation of these provisions by alternative means. Consequently, I was unable to determine whether any adjustments relating to the provision for long service awards and continuous medical aid contribution in the financial statements were necessary.
16. The municipality did not correctly account for the provision for rehabilitation of landfill sites in the records of the municipality as required by SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment*. The municipality did not capitalise the present value of future restoration cost. Furthermore, finance cost and depreciation relating to this provision were also not accounted for. Consequently, property, plant and equipment, provision for rehabilitation cost, finance cost and depreciation are understated by R21 260 975 (2011: R21 994 112), R24 801 380 (2011: R23 607 691), R2 440 467 (2011: R2 228 737) and R733 137 (2011: R733 137) respectively. Additionally, the deficit for the period and accumulated surplus are understated by R442 029 (2011: R236 947). The current and non-current portions were also not disclosed separately. I was unable to confirm the valuation and allocation of these provisions by alternative means. Consequently, I was unable to determine whether any adjustment relating to the provision for environmental rehabilitation in the financial statements was necessary.

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Trade and other receivables from exchange transactions

17. I was unable to determine whether the municipality used objective evidence to calculate the amount of impairment of receivables of R55 805 677 (2011: R53 784 995) disclosed in note 7 to the financial statements, as required by the South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC 133), *Financial Instruments Recognition and Measurement*. I was unable to verify the correctness of the valuation of the provision for bad debt on these receivables by alternative means. Consequently, I was unable to determine whether any adjustments relating to provision for bad debt and the debt impairment expense in the financial statements were necessary.
18. Sufficient appropriate audit evidence could not be provided to substantiate debtors of R57 145 345 (2011: R62 479 919) included in receivables from exchange transactions as per note 7 to the financial statements. I was unable to confirm the existence, rights, valuation and allocation and completeness of these debtors by alternative means. Consequently I was unable to determine whether any adjustment relating to trade and other receivables from exchange transactions in the financial statements was necessary.

Consumer deposits

19. The municipality could not provide sufficient appropriate audit evidence for consumer deposits of R23 312 820 (2011: R21 506 788) in the statement of financial position. I was unable to confirm the existence, rights, valuation and allocation of these consumer debtors by alternative means. Consequently I was unable to determine whether any adjustments relating to these balances in the financial statements were necessary.

Unspent conditional grants

20. I could not obtain sufficient appropriate audit evidence to confirm the existence, completeness, valuation and allocation of and the obligation pertaining to the unspent conditional grant of R76 044 287 (2011: R 15 220 774). I was unable to confirm the existence, completeness, valuation and allocation of and obligation pertaining to these liabilities by alternative means. Consequently, I was unable to determine whether any adjustment relating to unspent conditional grants in the financial statements was necessary.

Consumer debtors

21. I was unable to determine whether the municipality used objective evidence to calculate the amount of impairment of receivables of R718 793 776 (2011: R590 273 667) disclosed in note 8 to the financial statements, as required by the South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC 133), *Financial Instruments Recognition and Measurement*. I was unable to verify the correctness of the valuation of the provision for bad debt on these receivables by alternative means. Consequently, I was unable to determine whether any adjustments relating to provision for bad debt and the debt impairment expense in the financial statements were necessary.
22. I was unable to obtain sufficient appropriate audit evidence for receivables of R246 638 171 (2011: R207 221 257) included in consumer debtors of R783 486 451 (2011: R650 841 929) as disclosed in note 8 to the financial statements. I was unable to confirm the existence, rights, valuation and allocation of these consumer debtors by alternative means. Consequently, I was unable to determine whether any adjustments relating to these balances in the financial statements were necessary.
23. During 2011, I was unable to obtain sufficient appropriate audit evidence for bad debts written-off amounting to R72 745 842. I was unable to confirm the expenditure by alternative means. Consequently I was unable to determine whether any adjustments to

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this amount and accumulated surplus were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

24. The municipality did not follow the approved debt collection policy as required by Section 96 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). Consumer debtors were written off in contravention with the debt collection policy. Consequently, consumer debtors are understated by R385 545 148, the deficit for the year overstated by R56 952 (2011: R385 488 196) and accumulated surplus understated by R385 545 148.

Revenue

25. I was unable to obtain sufficient appropriate audit evidence for transfer of reserves and funds, rental income and sale of stands of R50 323 061 (2011: R213 118 312) included in other income of R103 000 692 (2011: R213 838 727) disclosed in the statement of financial performance. I was unable to confirm the occurrence, accuracy and classification of other income by alternative means. Consequently, I was unable to determine whether any adjustments relating to other income in the financial statements were necessary.

Operating expenses

26. I was unable to obtain sufficient appropriate audit evidence to substantiate an amount of R26 114 035 which reduces expenditure, the accuracy of payments for goods and service of R9 790 968 and whether services were received for payments of R7 057 766. I was unable to confirm the occurrence, accuracy, cut-off, classification and completeness of expenditure by alternative means. Consequently, I was unable to determine whether any adjustments relating to operating expenses in the financial statements were necessary.
27. Infrastructure assets were identified during the previous financial year as being double accounted for in the records of the municipality and was subsequently corrected. However, when adjustments were made to correct this error, depreciation on these infrastructure assets were incorrectly included in the corresponding year's depreciation expense of R21 961 286. Consequently, the corresponding amount for operating expenses and property, plant and equipment is overstated by R21 961 286. Additionally, the net deficit for the corresponding financial year is understated by R21 961 286 and accumulated surplus understated by R21 961 286.
28. The municipality did not recognise expenditure when it accrued to the municipality as required by SA Standards of GRAP, GRAP 1, *Presentation of Financial Statements*. An error relating to the overcharging of property rates was incorrectly adjusted by writing off the amount as bad debt in the corresponding year. Consequently, expenditure and the net deficit for the corresponding year are both overstated by R53 121 260.

Accumulated surplus

29. Limitations placed on my audit relating to expenditure, revenue transactions and adjustments made to the accumulated surplus in prior years have not been resolved. In the absence of sufficient appropriate audit evidence to substantiate these transactions and adjustments included in accumulated surplus of R1 654 974 877 (2011: R1 755 677 437), I was unable to verify the completeness, valuation and allocation by alternative means. Consequently, I was unable to determine whether any adjustment relating to accumulated surplus in the financial statements was necessary.

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Cash flow statement

30. The municipality's calculation of net cash flows from operating activities and cash generated from operations did not appropriately account for non-cash items in the cash flow statement. The municipality's records did not permit the application of alternative audit procedures to determine the extent of the misstatement. Consequently, I did not obtain sufficient appropriate audit evidence to confirm the accuracy of the cash flow statement for the current and corresponding year.

GRAP disclosures

31. The municipality did not disclose all material amounts separately in the financial statements as required by SA Standards of GRAP, GRAP 1, *Presentation of Financial Statements*. Material classes of similar items were not presented separately for other income, property, plant and equipment, operating expenses and current liabilities in the financial statements.
32. The municipality did not disclose in the financial statements new SA Standards of GRAP that have been issued, that are not yet effective and that were not applied as required by SA Standards of GRAP, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. This fact and the known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity's financial statements in the period of initial application, was not disclosed in the financial statements.

Capital commitments

33. There was no contract management system in place for the identification of authorised capital expenditure and capital commitments. I could not obtain sufficient appropriate audit evidence to substantiate capital commitments of R91 320 532 (2011: R122 182 314). I was unable to confirm the valuation and completeness of capital commitments by alternative means. Consequently, I was unable to determine whether any adjustment relating to capital commitments in the financial statements was necessary.

Irregular expenditure

34. The municipality did not include particulars of irregular expenditure in the notes to the financial statements as required by section 125 of the MFMA. The municipality made payments in contravention of the supply chain management requirements which were not included in irregular expenditure, resulting in irregular expenditure being understated by R25 306 656 (2011: R216 644 630). Additionally, I was unable to obtain sufficient appropriate audit evidence for awards of R365 747 278 (2011: R465 189 951) made in terms of the municipality's SCM policy. The municipality's records did not permit the application of alternative procedures. Consequently, I did not obtain sufficient appropriate audit evidence to verify that all material irregular expenditure has been disclosed in the notes to the financial statements.

Material losses

35. The municipality did not disclose the electricity and water distribution losses in the financial statements as required by section 125 (2)(d)(i) of the MFMA. The municipality has no control measures in place to accurately determine the extent of distribution losses. I was unable to determine the amount of these distribution losses by alternative means. Consequently, I was unable to determine whether any adjustment relating to distribution

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losses in the financial statements was necessary.

MFMA Disclosures

36. Section 125(1)(c) of the MFMA requires the disclosure of the total amounts paid in audit fees, taxes, levies, duties and pension and medical aid contributions and whether any amounts were outstanding at the end of the financial year. The amounts for the corresponding year disclosed in note 42 to the financial statements for medical and pension contributions and taxes and levies are incorrect. Medical and pension fund contributions are understated by R7 013 936, taxes and levies paid understated by R6 487 985 and the amount for outstanding audit fees understated by R1 214 394.

Disclaimer of opinion

37. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

38. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

39. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Going concern

40. As disclosed in the statement of financial performance in the financial statements the municipality incurred a net loss of R103 602 752 during the year ended 30 June 2012 and, as of that date, the municipality's current liabilities exceeded its current assets by R589 582 550. These conditions, along with other matters as set forth in note 37, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Unauthorised and Fruitless and wasteful expenditure

41. As disclosed in note 40 to the financial statements, fruitless and wasteful expenditure of R9 688 035 for the current year and R5 720 251 from prior years had not yet been resolved.
42. As disclosed in note 39 to the financial statements, unauthorised expenditure of R481 003 201 from prior years had not yet been resolved.

Additional matter

43. I draw attention to the matter below. My opinion is not modified in respect of this matter.

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Unaudited supplementary schedules

44. The supplementary information set out on pages 347 to 356 does not form part of the financial statements and is presented as additional information. I have not audited these annexures and accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

45. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

46. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 119 to 204 of the annual report.
47. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (FMPPI).
48. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
49. There were no material findings on the annual report concerning the usefulness and reliability of the information.

Additional matters

50. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matters below.

Achievement of planned targets

51. Of the total number of 237 targets planned for the year, 123 of targets were not achieved during the year under review. This represents 52% of total planned targets that were not achieved during the year under review. This was as a result of the institution not considering relevant systems and evidential requirements during the annual strategic planning process

Material adjustments to the annual report

52. Material misstatements in the annual report were identified during the audit, all of which were corrected by management.

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Compliance with laws and regulations

53. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements, performance and annual reports

54. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

Audit committees

55. The performance audit committee did not submit at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii).

Procurement and contract management

56. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
57. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids as required by SCM regulation 19(a).
58. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).
59. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
60. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
61. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the municipality requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
62. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
63. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
64. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).

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65. Contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
66. Sufficient appropriate audit evidence could not be obtained that contracts and were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of Preferential Procurement Policy Framework Act.
67. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
68. Sufficient appropriate audit evidence could not be obtained that all extension or modification to contracts were approved by a properly delegated official, as required by SCM Regulation 5.
69. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
70. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
71. Contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
72. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
73. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) and the code of conduct for councillors issued in terms of the MSA.
74. Allegations of failure to comply with the supply chain management system laid against officials were not investigated as required by SCM Regulation 38(1)(b).
75. Prospective providers were not invited to apply for such listing prospective providers list, at least once a year as per the requirements of SCM regulation 14(1)(a)(ii).
76. The municipality did not implement a SCM policy as required by section 111 of the MFMA.
77. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements and that the procurement process is fair, equitable, transparent and competitive, as relevant documentation was not submitted for audit.

Expenditure management

78. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
79. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.
80. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place as required by section 65(2)(a) of the MFMA.
81. The accounting officer did not take effective steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d)

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of the MFMA.

Revenue management

82. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

Asset management and liability management

83. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
84. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Financial misconduct

85. Investigations were not instituted into all allegations of financial misconduct against officials of the municipality, as required by section 171(4)(a) of the MFMA.
86. Disciplinary proceedings were not instituted against all officials of the municipality, when investigations warranted such a step, as required by section 171(4)(b) of the MFMA.

Waste management

87. The municipality operated some of its waste disposal sites without a waste management license or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) (NEMWA) and section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989) (ECA), while the operational activities on their other waste disposal site(s) contravened or failed to comply with the requirements of a waste management license or permit and the norms and standards in terms of section 67(1)(f) and (h) of the NEMWA and section 29(4) of the ECA.
88. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) and sections 16(1)(c)&(d) and 26(1)(b) of the NEMWA.

Internal control

89. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported

below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion and the findings on compliance with laws and regulations included in this report.

Leadership

90. Management failed to timely appoint sufficient appropriately skilled staff in key positions within the finance unit and the training and development initiatives failed to address the underlying deficiencies that caused matters to be repeatedly reported on in the audit report. Policies and procedures did not adequately guide financial and performance activities. Action plans designed to address prior year audit findings as discussed and agreed with municipal public accounts committee and council were not implemented and reflects negatively on management's ability to address recurring audit findings.

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Financial and performance management

91. Management failed to implement effective controls to ensure that information in the financial statements and the report on predetermined objectives were reliable before submission for audit. This was mainly due to the inability of management to address the prior years' audit findings and staff in the finance section not understanding the requirements of the financial reporting framework. The ignorance of management to address the repetitive findings relating to supply chain management regulations is indicative of financial misconduct.

Governance

92. The risks identified during the risk assessment process relating to financial and performance reporting and compliance with laws and regulations were not adequately addressed in the risk management strategy adopted by the municipality. Though the audit committee fulfilled its function, the municipality did not adequately respond to the concerns raised by the audit committee, resulting in the internal control environment over financial and performance information and compliance with laws and regulations being ineffective.

Rustenburg

30 November 2012

